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Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

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China: Prospects for Retaliation Against US Protectionist Legislation [redacted]

Summary

We believe proposed US legislation would reduce China's textile exports by as much as 40 percent, costing Beijing as much as $520 million at current trade levels. Beijing would feel compelled to retaliate by ordering sharp reductions in US imports. We believe timber is the most likely target, but Beijing would orchestrate its cutbacks to match the value of exports lost to protectionism. [redacted] 25X1

Impact of Textile Legislation on China

China relies on exports to the United States for at least 10 percent of its foreign exchange earnings. But those exports are highly concentrated--nearly three-quarters of the total value is in just a few categories, dominated by textile and oil products (see chart). China is trying to diversify its product lines, but has not been very successful. [redacted]

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This memorandum was prepared by Development Issues Branch, Office of East Asian Analysis. Information available as of 2 October 1985 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Development Issues Branch, China Division, OEA, [redacted] 25X1

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Proposed US legislation, especially the Jenkins Bill, would not only curtail growth in textile exports but would reduce present levels of sales by as much as 40 percent. At current trade levels, we estimate that the Chinese stand to lose exports of at least $380 million and perhaps as much as $520 million, or 10 to 15 percent of projected total sales to the United States this year. These estimates are straightline projections based on trade data through July. The lower value assumes that the controls are on apparel categories only; the higher value includes unfinished textiles as well. [redacted] 25X1

Friction over Chinese sales of textiles and apparel has haunted the bilateral relationship throughout the 1980s. Growth in many categories of textiles and apparel is restricted by either negotiated or unilateral controls. Changes last year in US rules covering textile imports evoked angry reactions from all textile-exporting countries, including China. Beijing is particularly irritated by periodic US requests for consultations to impose additional category-by-category limits on textile trade. Although the Chinese may also criticize the United States for changes in lead content rules that cut China out of the US gasoline market, they have more than compensated for that loss with increased sales of crude oil. [redacted]

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A Trade Deficit Puts Pressure on Beijing To React

Although US trade statistics indicate that China maintains a small[1] surplus in trade with the United States, Chinese data show an $850 million deficit.[2] China is concerned about the size of the deficit, particularly in light of an apparently unexpected slump in foreign exchange reserves last spring. At that time, Beijing ordered reductions in imports to regain control over its finances. These restrictions have now been somewhat liberalized, but if trade deficits continue to grow, the leadership is likely to feel compelled to react harshly to restraints on Chinese exports by clamping down further on imports. [redacted]

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Retaliation Would Be Carefully Orchestrated

If the Jenkins Bill or similarly restrictive legislation were to become law, we believe Beijing would retaliate by cutting back on purchases of select product lines that China could either do without or acquire elsewhere. In early 1983, China responded to US textile trade restraints with a clearly orchestrated "retaliation," cutting imports of product lines --wheat, soybeans and textile fibers--sales of which were important to US producers and exporters but which China could reduce temporarily without hurting its

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[1] About $150 million for January through June 1985. [redacted] 25X1

[2] Some of this wide discrepancy can be attributed to China's inclusion of the costs of technology (software) along with merchandise prices. In addition, the Chinese apparently use different accounting systems than the United States. Several Chinese organizations independently maintain trade statistics and none of them agree with either US data or each other's. [redacted] 25X1

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domestic economy. [redacted] 25X1

This year, however, we believe US timber exports to be a prime candidate for Chinese retaliation. Short-term demand could be met by the timber shipments awaiting delivery in China's congested ports. Moreover, China could turn to the Soviet Union, Canada, and Southeast Asia to further offset reductions in US supplies. China may also choose timber because Beijing realizes the importance of its purchases to timber producers in the Pacific Northwest and would expect those firms to lobby against protectionist legislation. US timber sales to China in 1984 amounted to $272 million; sales through July 1985 have already reached $212 million. Other categories Beijing may target include: construction equipment--including mining and oilfield equipment ($136 million last year and $261 million through July 1985); fertilizers ($267 and $127 million); and wheat ($575 and $44 million). Beijing would probably plan its cutbacks so that the value of the purchase reductions approximately matched the losses they would attribute to protectionism. [redacted] 25X1

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